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STATE OF MONTANA
OFFICE OF THE LEGISLATIVE AUDITOR
REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
TWO FISCAL YEARS ENDED JUNE 30, 1983
PERFORMED UNDER CONTRACT BY
KINDRED HOLLAND & CO.

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STATE OF MONTANA

OFFICE OF THE LEGISLATIVE AUDITOR

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
TWO FISCAL YEARS ENDED JUNE 30, 1983

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122



ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

December 1983

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLET
FINANCIAL/COMPLIANCE AUDITS

SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Office of the Legislative Auditor for the two fiscal years ended June 30, 1983.

The audit was conducted by Kindred, Holland & Company under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

Robert R. Ringwood
Robert R. Ringwood
Legislative Auditor

TABLE OF CONTENTS

	<u>Page</u>
Elected and Appointed Officials.	ii
Introduction	1
Background	1
Internal Controls.	2
Prior Report Recommendations	3
Final Comments	3
Auditor's Report	4
FINANCIAL STATEMENTS:	
Combined Balance Sheet, All Fund Types and Account Groups, June 30, 1983.	5
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance, General and Special Revenue Fund Types for the Fiscal Year Ended June 30, 1983.	6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance, General and Special Revenue Fund Types for the Fiscal Year Ended June 30, 1982.	7
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and Special Revenue Fund for the Fiscal Year Ended June 30, 1983.	8
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and Special Revenue Fund for the Fiscal Year Ended June 30, 1982.	9
Notes to the Financial Statements.	10
AGENCY RESPONSE	13

ELECTED AND APPOINTED OFFICIALS
OFFICE OF THE LEGISLATIVE AUDITOR

1981-1983

Senators

Matt Himsl, Chairman
Chet Blaylock
Steve Brown
Frank Hazelbaker

Representatives

Kathleen McBride, Vice Chairman
Robert Anderson
James Burnett
Steve Waldron

1983-1985

Senators

Harold Dover, Vice Chairman
Matt Himsl
Judy Jacobson
J.D. Lynch

Representatives

Kathleen McBride, Chairman
Toni Bergene
John Harp
Steve Waldron

Robert R. Ringwood, Legislative Auditor

INTRODUCTION

We performed a financial/compliance audit of the Office of the Legislative Auditor for the two fiscal years ended June 30, 1983. The objectives of the audit were to: (1) determine if the Office's financial statements present fairly its financial position at June 30, 1983 and the results of operations for the two fiscal years then ended; (2) determine if the Office complied with applicable laws and regulations; and (3) make recommendations for the improvement in the management and internal controls of the Office. The Office of the Legislative Auditor was last audited in 1981.

BACKGROUND

The Office of the Legislative Auditor was established in 1967, and is governed by Title 5, Chapter 13, MCA. The Office is responsible for auditing the financial affairs and transactions of every state agency and the efficiency and effectiveness of selected state programs and operations. The Office is also responsible for assisting the Legislature, its committees and members by gathering and analyzing information relating to the fiscal affairs of state government.

The Office works under the general supervision of the bipartisan Legislative Audit Committee, the members of which are evenly divided between the Senate and House of Representatives.

The Office was appropriated \$ 1,185,607 from the General Fund and \$ 861,675 from the Special Revenue Fund for operations during fiscal year 1982, and \$ 1,545,382 from the General Fund and \$ 783,425 from the Special Revenue Fund for fiscal year 1983. Budget additions to the Special Revenue Fund of \$ 12,950 were approved by the Office of Budget and Program Planning for federal program audits during fiscal year 1982. General funds of \$ 149,159 were transferred to the Special Revenue Fund in fiscal year 1982 to establish the audit revolving fund under Section 5-13-403 MCA.

The Office spent \$ 1,577,894 during fiscal year 1982 and \$ 1,619,029 during fiscal year 1983.

INTERNAL CONTROLS

We have examined the financial statements of the Office of the Legislative Auditor and have issued our report thereon dated November 23, 1983. As part of our examination we made a study and evaluation of the Office's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The Office of the Legislative Auditor is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the Office are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the Office with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with the Office's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The internal control review of the Office was limited to tests of controls over revenue, expenditures, payroll, and plant, property, and equipment. We also applied substantive testing to revenue/receivables and expenditures/payables as it gave us more effective results. We applied compliance testing to those controls dealing with state laws and procedures.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Office of the Legislative Auditor taken as a whole. However, our study and evaluation disclosed no material weaknesses in internal control.

PRIOR REPORT RECOMMENDATIONS

The Office of the Legislative Auditor was last audited for the fiscal year ended June 30, 1981 under a contract with the Office of the Legislative Auditor. The report contained no recommendations.

FINAL COMMENTS

The preceding comments are intended solely for the use of management and the legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document, which upon acceptance by the Legislative Audit Committee, is a matter of public record.

We thank the Legislative Auditor and his staff for their cooperation and assistance during our audit.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS



Karen M. Booker
Marcia E. Goodell
Michael W. Danzer
Edward C. Kerins

Ann J. Kindred

Certified Public Accountants

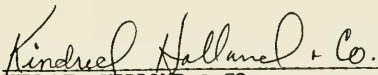
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P.O. Box 245
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(406) 442-4206

November 23, 1983

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Combined Balance Sheets and Combined Statements of Revenues, Expenditures, and Changes in Fund Balance, and the Combined Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual of the various funds and account groups of the Montana Office of the Legislative Auditor as of and for the two fiscal years ended June 30, 1983. Our examination was made in accordance with generally accepted governmental auditing standards for financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of such funds and account groups of the Montana Office of the Legislative Auditor at June 30, 1983 and the results of its operations and the changes in fund balances of such funds for the two fiscal years then ended, in conformity with generally accepted accounting principles which have been applied on a consistent basis.


KINDRED HOLLAND & CO.
Certified Public Accountants

OFFICE OF THE LEGISLATIVE AUDITOR
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1983

	<u>GOVERNMENTAL FUND TYPES</u>		<u>ACCOUNT GROUPS</u>	
	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>General Fixed Assets</u>	<u>General Long-Term Liabilities</u>
ASSETS				
Cash		\$220,634		
Receivables	\$ 7,731	69,862		
Equipment			\$20,373	
Amount Available to Pay Accounts Payable & Accrued Expenditures	50,659			
Amount to be Provided for Payment of Long-Term Liabilities				\$115,754
TOTAL ASSETS	<u>\$58,390</u>	<u>\$290,496</u>	<u>\$20,373</u>	<u>\$115,754</u>
LIABILITIES				
Accounts Payables	\$50,659	\$ 35,984		
Allowance for Deferred Account Receivable		6,517		
Compensated Absences Payable				115,754
Due to State of Montana	7,731			
TOTAL LIABILITIES	<u>58,390</u>	<u>42,501</u>		<u>115,754</u>
FUND EQUITY				
Investment in General Fixed Assets			\$20,373	
Fund Balance	-0-	247,995		
Total Liabilities and Fund Equity	<u>\$58,390</u>	<u>\$290,496</u>	<u>\$20,373</u>	<u>\$115,754</u>

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE LEGISLATIVE AUDITOR
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GENERAL AND SPECIAL REVENUE FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	<u>GOVERNMENTAL FUND TYPES</u>	
	<u>General Fund</u>	<u>Special Revenue Fund</u>
REVENUES:		
Charges for Audit Services	\$ 35,895	\$719,137
EXPENDITURES:		
Audit and Examination Program	953,347	707,072
PRIOR YEAR ADJUSTMENTS	<u>2,907</u>	<u>2,748</u>
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	(914,545)	9,317
OTHER FINANCING SOURCES		
Support from State of Montana	<u>914,545</u>	<u>-0-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES	-0-	9,317
FUND BALANCE, JULY 1, 1982	<u>-0-</u>	<u>238,678</u>
FUND BALANCE, JUNE 30, 1983	<u>\$ -0-</u>	<u>\$247,995</u>

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE LEGISLATIVE AUDITOR
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GENERAL AND SPECIAL REVENUE FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	<u>GOVERNMENTAL FUND TYPES</u>	
	<u>General Fund</u>	<u>Special Revenue Fund</u>
REVENUES:		
Charges for Services	\$ 36	\$608,332
EXPENDITURES:		
Audit and Examination Program	962,777	518,813
PRIOR YEAR ADJUSTMENTS	<u>21,519</u>	<u> </u>
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	(941,222)	89,519
OTHER FINANCING SOURCES (USES):		
Support From State of Montana	<u>941,222</u>	<u>149,159</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES	-0-	238,678
FUND BALANCE, JULY 1, 1981	<u>-0-</u>	<u>-0-</u>
FUND BALANCE, JUNE 30, 1982	<u>\$ -0-</u>	<u>\$238,678</u>

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE LEGISLATIVE AUDITOR
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	GENERAL FUND			SPECIAL REVENUE FUND		
	Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES:						
Charges for Audit Services	\$ -0-	\$ 35,895	\$ 35,895	\$788,425	\$719,137	\$(69,288)
EXPENDITURES:						
Audit and Examination Program	1,545,382	961,347	584,035	783,425	657,682	125,743
PRIOR YEAR ADJUSTMENT	<u>2,907</u>	<u>2,907</u>	<u>-0-</u>	<u>1,328</u>	<u>1,328</u>	<u>-0-</u>
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	(1,542,475)	(922,545)	619,930	6,328	62,783	56,455
OTHER FINANCING SOURCES (USES):						
Support From State of Montana	<u>1,542,475</u>	<u>922,545</u>	<u>619,930</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES	-0-	-0-	-0-	6,328	62,783	56,455
FUND BALANCE, JULY 1, 1982 ON BUDGET BASIS	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>142,374</u>	<u>142,374</u>	<u>-0-</u>
FUND BALANCE, JUNE 30, 1983 ON BUDGET BASIS	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$148,702</u>	<u>\$205,157</u>	<u>\$ 56,455</u>

Fund Balance, June 30, 1982, on Budgeted Basis
 Budgeted for Encumbrances at June 30, 1983 (Type A Accruals)
 Fund Balance, June 30, 1983 on the Modified Accrual Basis

\$205,157
 42,838
\$247,995

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE LEGISLATIVE AUDITOR
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL AND SPECIAL REVENUE FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	GENERAL FUND			SPECIAL REVENUE FUND		
	Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES:						
Charges for Services	\$ -0-	\$ 36	\$ 36	\$865,675	\$608,332	\$(257,343)
EXPENDITURES:						
Audit and Examination Program	1,185,607	962,777	222,830	874,625	615,117	259,508
PRIOR YEAR ADJUSTMENTS	<u>21,519</u>	<u>21,519</u>	<u>-0-</u>			
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	(1,164,088)	(941,222)	222,866	(8,950)	(6,785)	2,165
OTHER FINANCING SOURCES (USES):						
Support From State of Montana	<u>1,164,088</u>	<u>941,222</u>	<u>(222,866)</u>	<u>149,159</u>	<u>149,159</u>	<u>-0-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES	-0-	-0-	-0-	(8,950)	(6,785)	2,165
FUND BALANCE, JULY 1, 1981 ON BUDGET BASIS	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
FUND BALANCE, JUNE 30, 1982 ON BUDGET BASIS	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$140,209</u>	<u>\$142,374</u>	<u>\$ 2,165</u>

Fund Balance, June 30, 1982 on Budget Basis
 Budgeted for Encumbrances at June 30, 1982
 Fund Balance, June 30, 1982 on the Modified Accrual Basis

\$142,374
 96,304
\$238,678

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE LEGISLATIVE AUDITOR
NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1983

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System with adjustments. The Office of the Legislative Auditor is a segment of the Legislative Branch of the state of Montana.

The accounting records are maintained on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of incurred costs or legal liability and revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt.

Fund Types

On July 1, 1979, the state of Montana accounts were organized by a fund structure as outlined in section 17-02-102, MCA. For financial presentation, these funds have been reclassified according to the Governmental Accounting and Financial Reporting Principles Statement 1 issued by the National Council on Governmental Accounting.

GOVERNMENTAL FUND TYPES

General Fund -- To account for receipt and expenditure of money allocated to the Legislative Auditor by the state for support of the agency's programs and agency administration.

Special Revenue Fund -- To account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. This fund corresponds to the Revolving Fund within the state treasury fund structure.

ACCOUNT GROUP

General Fixed Assets Group of Accounts -- This account group accounts for equipment of the Legislative Auditor. Equipment is recorded as expenditures at the time of purchase and capitalized at cost in the General Fixed Assets Group of Accounts. No depreciation has been provided on General Fixed Assets. The General Fixed Asset Group includes only those assets with a cost of \$200 or greater.

Long-Term Liabilities Account Group -- This account group accounts for long-term liabilities which have not matured. The amount shown represents the liability for accumulated vacation and sick leave of the Legislative Auditor's employees.

2. VACATION AND SICK PAY

Employees accrue eight hours of sick leave and ten hours of vacation leave each month. Vacation leave accrual rates increase after ten years of service. In the event of termination, an employee is paid for 100 percent of accumulated vacation and 25 percent of accumulated sick leave. The amount of the liability associated with unused accumulated vacation and sick leave on June 30, 1982, was valued at \$98,842, and \$115,754 on June 30, 1983.

3. BUDGET INFORMATION

The Office of the Legislative Auditor utilizes a fixed annual basis of budgeting. Under the fixed annual method, appropriations of specific dollar amounts are set for each fiscal year of a biennium by the Legislature. At the end of each year, the remaining appropriation balance reverts to the fund of original appropriation. The reverted appropriation may be used in the subsequent year as authorization for valid prior year obligations.

4. RETIREMENT SYSTEM OBLIGATIONS

Employees at the Office of the Legislative Auditor are covered by the Public Employees' Retirement Plan. This contributory retirement plan involves matching amounts paid by the eligible employee and employer. The agency incurred pension plan costs of \$57,578 during fiscal year 1981-82 and \$71,180 during fiscal year 1982-83. The state contributes 6.2 percent of an employee's gross wages and the employee contributes 6 percent of his gross wages to the plan.

The state's policy is to fund accrued pension costs. The Public Employees' Retirement System was actuarially sound, at June 30, 1982, the date of the most recent actuarial valuation. The unfunded past service costs and the actuarially computed value of vested benefits were not readily available for members of the plan employed by the agency.

AGENCY RESPONSE

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122



ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

December 2, 1983

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLET
FINANCIAL/COMPLIANCE AUDITS

SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY

Karen Booker, CPA
Kindred, Holland & Co.
Box 245
Helena, Montana 59624

Thank you for your report on the results of the examination of the financial statements of the Office of the Legislative Auditor. It has been a pleasure working with you.

Sincerely,

Robert R. Ringwood
Robert R. Ringwood
Legislative Auditor

RRR/jwx

